



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: Anti-Pension Spiking Amds & Litig. Moratorium.
Bill Number: Senate Bill 668 (First Edition)
Sponsor(s): Senator Burgin

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 668, V. 1 (\$ in thousands)

	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
State Impact					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	-	-	-	-	-

ACTUARIAL IMPACT SUMMARY

All sections have potential actuarial impacts on a retirement system.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS)

Sections 1 and 2: Shift the additional employer contribution requirement for an employee subject to the Contribution Based Benefit Cap (CBBC) from the last employer to a prior employer if the member's annualized final compensation from the last employer was less than \$100,000 and if the member was eligible for an unreduced benefit when hired by the last employer. Section 2 is retroactively effective to January 1, 2019. Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that these sections will have no material impact on the contribution rates or liabilities of TSERS.

Section 3: Prohibits local boards of education from filing legal actions against the State regarding the CBBC for 5 years. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

Section 4: Requires an annual report from the TSERS Board of Trustees to the General Assembly regarding legal actions filed by local boards of education and requires local boards of education to

provide the data needed to compile the report. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS.

ASSUMPTIONS AND METHODOLOGY

The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2019 actuarial valuations, except where new assumptions based on the experience study completed in 2020 would have a material impact on the results. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2019 unless otherwise noted, M = millions)	
	TSERS
Active Members	
Count	305,962
General Fund Compensation	\$11,166M (2020 session)
Valuation Compensation (Total)	\$16,112M
Average Age	45
Average Service	10.8
Inactive Members	
Count	183,347
Retired Members	
Count	228,291
Annual Benefits	\$4,804M
Average Age	71
New Retirees During 2020	11,000

Financial Statistics (as of 12/31/2019 unless otherwise noted, M = millions)	
	TSERS
Accrued Liability (AL)	\$84,873M
Actuarial Value of Assets (AVA)	\$73,354M
Market Value of Assets (MVA)	\$75,487M
Unfunded Accrued Liability (AL - AVA)	\$11,520M
Funded Status (AVA / AL)	86%
Required Employer Contribution for FY 2021-22 (as % of pay)	15.74%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%
Assumed Rate of Investment Return	7.00%
Cost Method	Entry Age Normal
Amortization: 12 year, closed, flat dollar	
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015	

Benefit Provisions	
	<u>TSERS</u>
Formula	1.82% x Service x 4 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5
Employee contribution (as % of pay)	6%

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from the Fiscal Research Division.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "Anti-Pension Spiking Amendments and Litigation Moratorium – Senate Bill 668", April 28, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 668: An Act to Make Changes to the Contribution-Based Benefit Cap Laws", April 26, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State or local government retirement systems and does not address sections that have no projected actuarial impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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Signed copy located in the NCGA Principal Clerk's Offices